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October 6, 2005

By Hand

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

Re: Bay State Gas Company, D.T.E. 04-39; Special 2005/2006 Heating Season
Weatherization Rebate Program

Dear Secretary Cottrell:

Introduction

We are writing on behalf of Bay State Gas Company ("Bay State" or "Company") in accordance with the Settlement Agreement approved on September 13, 2004 in Bay State Gas Company, D.T.E. 04-39 (the "D.T.E. 04-39 Settlement"). In particular, we are writing pursuant to Section II.G of the D.T.E. 04-39 Settlement (which is attached hereto as Attachment A for your convenience of reference) with respect to the expenditure and recovery of funds that, potentially, will be in excess of the 2005/2006 program year pre-approved budget amounts set forth in the D.T.E. 04-39 Settlement. For the reasons detailed below, the Company respectfully requests that the Department approve its Special 2005/2006 Heating Season Weatherization Rebate Program (the "Rebate Program"). The Rebate Program, the need for such Program, and the benefits thereof are further described below.

The Unique Circumstances of the 2005/2006 Heating Season.

Given the effect of the devastating hurricanes in the Southern United States, as well as other factors, it is anticipated that natural gas commodity costs will be very high for the 2005/2006 heating season. The Governor, The General Court, the Department of Telecommunications and Energy ("Department"), the Division of Energy Resources ("DOER") and the Attorney General have all indicated their concerns with such costs and have urged local distribution companies to assist customers in addressing such costs. The proposed Rebate Program is just such a step. In

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short, it allows each residential customer, including low-income customers, to take pro-active steps in advance of the heating season to install individualized weatherization measures specifically tailored to their home. The Rebate Program (along with the other collaboratively developed, state-of-the-art energy efficiency efforts pre-approved in the D.T.E. 04-39 Settlement) empowers customers to help address anticipated increased heating costs as soon as this Autumn. As detailed below, a core benefit of this special Rebate Program is that a customer can act to save energy immediately without the need to wait for an audit or major measure installation under one of the Company's other energy efficiency programs.

Description of the Rebate Program.

Given the unprecedented factors noted above, Bay State seeks to offer customers creative options that are above and beyond its existing energy efficiency programs, all of which will continue unaffected by the Rebate Program. In particular, Bay State has developed the following template for a Rebate Program.

- Target: All residential (including low-income) customers residing in 1-4 family homes and on the Company's residential heating rates (Rates R-3, T-3, R-4 and T-4).
- Intent: To give customers an easy, immediate means to help reduce energy bills by self-installing readily available and low cost energy saving materials.
- Measures: Basic weatherization materials, including weather-stripping, caulking, door sweeps, pipe insulation. Each of these measures was screened for cost-effectiveness in connection with the D.T.E. 04-39 Settlement and found to be cost-effective or is currently offered through the Company's DTE and DOER-approved RCS program. Attachment B shows the list of eligible measures on a sample proposed program announcement/rebate form.
- Maximum Incentive: \$25 per customer.
- Mechanism: Bill Insert and Mail-in Rebate Form with customer affidavit of installation, accompanied by copy of receipts and original UPC codes, to be handled and processed internally by Bay State. Bay State would look to coordinate with hardware stores in marketing.

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- Savings: Stipulated/bundled 10 therms of savings per participating customer. These values are based on estimates used in D.T.E. 04-39 and are conservative. These savings would be utilized for all regulatory purposes.
- Barriers: Overcomes the need to schedule and wait for full energy audit when customers are able to identify and self-install low-cost measures on their own.
- Est. Budget: \$700,000. Actual expenditures will vary based on customer uptake of this new initiative.
- Est. Participation: 25,000 customers.
- Est. therm saving: 250,000 therms.
- Cost recovery: Through the existing well-established conservation charge ("CC") mechanism. The Company does not seek a performance incentive for this program and would recover any lost base revenue through the CC mechanism utilizing stipulated savings for administrative efficiency.
- Term: This special program would terminate on April 30, 2006. The Company could re-evaluate for future use based on in-the-field experience.

The overall concept is that a customer will be able to go to his or her local hardware store, purchase and install the qualifying measures that are most needed by that individual, and submit, for full reimbursement, up to \$25.00 per customer for material costs. The Company will have the right to perform spot inspections of participating customers and the rebate form will contain a customer statement verifying actual installation in their home and acknowledging that the Company is not liable for installations. Customers may still apply and participate in other D.T.E. 04-39 programs. The major benefit is that customers can take action before, or shortly after the beginning of the heating season and immediately start to realize increased comfort and savings. Bay State hopes the Rebate Program will help customers, including its valued low-income customers, feel more empowered. For maximum benefit, it would be appreciated if the Department could act on this request on an expedited basis.

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Department Approval.

Under the D.T.E. 04-39 Settlement, in Year One, the Company spent approximately \$1,827,000 in the Residential Sector out of an overall pre-approved budget of \$2,496,132. Rolling unexpended Year One funds (approximately \$669,000) forward into the current program year (Year Two), may likely more than cover the cost of this new initiative and accordingly, it is possible that the Company could take the position that Department pre-approval of the Rebate Program is not required given the flexibility provisions of Section II.F of the D.T.E. 04-39 Settlement.¹ However, given the innovative nature of the Rebate Program and the possibility of more extensive than anticipated customer uptake, the Company believes it is prudent to seek the Department's approval of the Rebate Program on an expedited basis in accordance with Section II.G of the D.T.E. 04-39 Settlement. In seeking such approval, the Company will be able to benefit from any suggestions the Department may have with respect to the Rebate Program. Also, to the extent the Department believes the Rebate Program has merit, it conceivably could be utilized by other local distribution companies interested in lowering customer bills this winter. Additionally, the Company will review the proposed Rebate Program with the other Settling Parties to the D.T.E. 04-39 Settlement and seek their support for this initiative. The Company will report on these discussions, but does not want to have such discussions delay the filing of this request with the Department given the imminent heating season. We note that the Company is not proposing to reallocate any funds away from low-income programs and will continue to offer all of the energy efficiency efforts described in the D.T.E. 04-39 Settlement.

¹ Certain unexpended Year One funds are being applied specifically to low-income efforts in coordination with local WAP agencies.

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Conclusion

In sum, we respectfully request the Department's expedited approval of the Rebate Program as detailed herein, including cost recovery for expenditures for such Program. Should you have any questions with respect to this request, please do not hesitate to contact the undersigned at (617) 556-3885, Stephen Bryant at (508) 836-7000 or Derek Buchler at (508) 836-7344. The Company believes the Rebate Program can provide real time benefits for customers looking for ways to address heating costs this winter. We appreciate your consideration of this request.

Very truly yours,

Emmett E. Lyne

cc: Andrew Kaplan, Esq., DTE
George Yiankos, DTE
Michael Killion, Esq., DTE
Steven Venezia, Esq., DOER
Jerrold Oppenheim, Esq., Low-Income Energy Affordability Network
Stephen Bryant, Bay State Gas Company
Patricia French, Esq., NiSource Corporate Services
Derek Buchler, Bay State Gas Company
Marjorie Izzo, Bay State Gas Company
Kara Gray, Bay State Gas Company

Attachment A

D.T.E. 04-39 Settlement Agreement

Attachment B

Sample Rebate Form and List of Qualifying Measure

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